



Business and Human Capital Challenges Today and in the Future

A Research Report by the Society for Human Resource Management

Society for Human Resource Management
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Rating

8 ⁹ Applicability
⁷ Innovation
⁷ Style

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Concepts & Trends

Take-Aways

- Human resource professionals and leaders, including organizational senior executives, believe in a larger, more important and more strategic role for HR in future.
- Better economic conditions and shortages of skilled employees mean more emphasis on HR, especially in recruiting, inspiring and retaining talent.
- HR competencies emphasize “HR expertise, business acumen, leadership, analytics, technology, legal compliance, communications and relationship management.”
- HR and non-HR leaders cite the need to recruit and develop top HR talent.
- Both agree that greater HR expertise represents the foremost, immediate HR competency.
- In the future, business acumen, “critical evaluation” and leadership will rise to the top.
- HR rates employee engagement as its top current human capital challenge.
- Non-HR executives rate retaining top talent as the most pressing current HR need.
- HR leaders cite resource constraints as their main internal obstacle.
- HR leaders feel a greater urgency to address overall workforce challenges than non-HR executives tend to feel.

Relevance

What You Will Learn

In this summary, you will learn: 1) What HR and non-HR leaders rate as the most important challenges facing HR, now and over the coming decade; and 2) What new competencies HR professionals and leaders need to contribute to modern business and strategy.

Recommendation

As the world's biggest HR organization, the Society for Human Resource Management (SHRM) moves slowly. It takes years to adopt terms and accept positions that smaller, more dynamic think tanks and thought leaders introduce. This SHRM report offers well-researched, credible and dependable conclusions from a global survey of HR professionals and leaders and non-HR senior executives. *getAbstract* recommends this manual and its valuable sidebars by HR experts, practitioners and academics. Many of the writers deliver worthy original insights. Be sure to notice, for example, Kari Strobel's description of the new HR competencies. Human resource professionals and HR or non-HR leaders will benefit from this report.

Summary

"HR professionals need both HR knowledge and a high degree of business acumen."

"Leadership development is all about living at the intersection of preparation and opportunity."

A Promising Future for the HR Profession

In 2014 and 2014, the Society for Human Resource Management (SHRM) conducted global surveys that generated responses from 439 HR professionals and leaders and 485 non-HR senior executives. Two-thirds of senior executives who don't work in HR state that they believe in HR's strategic role; more than 70% of non-HR executives anticipate a broader role for HR in the future. This is especially true in organizations of 25,000 employees or more. Two-thirds of HR respondents from such companies say that HR transformation – the change from being transactional to being strategic – is a primary challenge.

The majority of senior executives plan to make the HR function more strategic and measurement-driven. This gives HR leaders powerful allies in their transformation efforts. Non-HR executives feel less concerned about their organizations' talent challenges than HR respondents do, but both groups identify the same primary HR challenges: the need for HR to operate more effectively with fewer resources and to make the transition successfully from focusing on administration to focusing on strategy.

The Imperative for Change

Employee relations have progressed, but the command-and-control culture of the Industrial Revolution still influences most organizations. For example, organizations still refer to people in terms of "headcount and budget," and recruit employees as though they're purchasing equipment. More thought should go into the holistic values that employees bring to companies, such as culture and citizenship. Leaders should identify, provide and promote the growing range of benefits that their employees value aside from money. These include tangible perks like gym memberships and paid leave, and intangible benefits, such as a positive culture and flexible work options.

According to the Families and Work Institute, US workers feel squeezed for time. About three-quarters of working parents say they don't have enough time for their children or themselves. Almost 90% of employees rate work flexibility as "very" or "extremely"

“Technology currency is...a foundational competency for HR professionals who truly want to add value to their organizations.”

“Data alone are not important; the movement from data to dialogue is what’s necessary to drive action and results. Without dialogue, data are a mystery that many people seek to avoid.”

“Global business is accelerating, but considerable barriers to labor mobility persist.”

“The rationale for increasing HR’s business acumen should not be to demonstrate HR’s impact on the bottom line but to increase HR’s impact on the bottom line.”

important. Yet even in organizations that offer flexible work options, 40% of employees believe that using those benefits would harm their careers. Their concerns appear justified. The National Survey of Employers found that significantly more managers evaluated employees on “face time” instead of on performance.

What HR Professionals and Leaders Need to Succeed

Human resource and non-HR respondents expect HR processes and transactions to grow more automated and more efficient, and thus achievable with fewer employees. This may give HR professionals more time to address other leadership challenges. These include managing the increasingly complex legal and regulatory environment surrounding employment and moving HR from an administrative to a strategic focus. Overcoming these challenges – non-HR and HR leaders agree – means finding highly qualified HR professionals, leaders and strategists, now and in the future.

Human resource executives have the abilities to contribute as business partners. But modern firms need an enhanced sort of HR professional who has the technical, business and strategic skills to help companies compete in faster business environments.

SHRM recently evaluated HR leaders’ and professionals’ modern competency requirements. The survey drew 32,000 responses across 32 countries, and SHRM evaluated those results in combination with findings from more than 100 focus groups. The responses call for HR professionals and leaders to have deep HR expertise plus broad knowledge of business and financial fundamentals, which would allow them to contribute at the highest levels.

Necessary Competencies

SHRM argues that HR leaders must have the following competencies to work as partners with senior leaders and to contribute to developing and deploying organizational strategy:

1. **“Leadership and navigation”** – HR leaders must inspire and engage their teams to drive performance and commitment.
2. **“Ethical practice”** – HR sets the organizational tone by operating an ethical HR office. HR professionals must know and understand HR ethics.
3. **“Business acumen”** – HR professionals must know the business of their organizations and how HR can best improve it. They should understand how major internal and external stakeholders contribute to and affect the firm. These executives should advocate for HR throughout the organization by demonstrating the value of its contributions.
4. **“Relationship management”** – Positive relations among managers, leaders and employees, as well as among co-workers, leads to greater engagement, productivity and commitment. HR professionals must develop strong relationship skills, and help others acquire such skills and understand why their workplace relationships are important.
5. **“Consultation”** – HR professionals must apply their expertise in human capital management and their knowledge of best practices to their understanding of their firm’s business, so they can take a consulting role in assisting line leaders and managers.
6. **“Critical evaluation”** – HR professionals must improve their analytic abilities, including the skill to leverage “big data,” to make better, evidence-based decisions and to offer superior advice.
7. **“Global and cultural effectiveness”** – HR should take the lead in diversity initiatives, including knowing the laws and regulations that prevail in jurisdictions affecting the company. They should have expertise in finding diverse talent globally, working with cultural differences and conducting cross-cultural communication.

“Many HR professionals at all levels have had to work with fewer resources while trying to maintain employee morale under difficult conditions.”

“Every organization’s greatest asset is its human capital, and it follows that HR can drive strategy to leverage this talent to help ensure organizational success.”

“The demand for high-skilled labor is growing faster than supply, with 38 to 40 million fewer workers with advanced education than employers will need worldwide.”

“In the United States, nearly three out of four HR professionals expect skilled worker shortages to have a major impact on the workforce over the next five years.”

8. **“Communications”** – HR professionals must communicate “clearly and concisely” to make sure that leaders and managers understand HR policies and the value HR delivers.
9. **“HR Expertise”** – HR professionals must understand their domain to create the best HR systems possible, to help business leaders need and to earn credibility.

Human resource leaders rate HR expertise as the top HR competency. They list three other factors as next in line, though at some distance: relationship management, leadership ability and communications skills. Over the next decade, the emphasis will shift dramatically, with business acumen, leadership and critical evaluation rising to the top. HR leaders feel they need to develop basic HR skills before they focus on data, strategy and business competencies. Business knowledge and analytics are current and longer-term pivotal skills that fall within business acumen. Strategic abilities and technological literacy will become increasingly important.

In terms of HR knowledge, HR leaders in organizations of up to 24,999 people see their current and future need to understand “labor relations” as being more important than those in larger organizations rank it. “Compensation, talent management and workforce planning” follow closely as top priorities. HR leaders overwhelmingly cite the need for more training for themselves and their teams and almost half want more rigorous HR standards.

Leader Development

HR faces challenges in developing leaders to meet firms’ future needs. One-quarter of non-HR leaders agree with almost 40% of their HR counterparts that developing future leaders is HR’s highest priority over the next decade. HR must find and develop leaders who can:

- See the big picture.
- Focus on knowing and understanding the external environment as well as the internal business.
- Collaborate and welcome broad input on decisions.
- Bring together diverse multiskilled teams to solve complex problems and seize opportunities.
- Receive and give coaching.
- Respect their teams.
- Infuse work with purpose.

HR Technology

Human resource professionals must understand their industry’s technology to select the right mix of tools for their companies’ needs and strategies. This “foundational competency” means knowing what’s available, what’s new and what their competitors use. This includes tools that automate transactional processes as well as technologies for social networking, predictive analytics and the use of mobile.

Legal and Regulatory Compliance

Federal workplace rules, regulations and laws have expanded. States have added their own laws, making compliance an even more complex undertaking. Global firms face even greater challenges. New forms of nontraditional work, including crowdsourcing and new kinds of contractors, such as Uber and Lyft drivers, blur the lines between what constitutes an employee and who falls under what provisions. More than one-third of non-HR leaders cite compliance with laws and regulations as their top challenge that relates to the “HR function.” Almost half of HR leaders agree that legal and regulatory management will develop into an even greater challenge.

“HR professionals today are rightly proud to treat people with much more dignity and respect than early companies did. Yet the production view of people still reigns at the most strategic levels.”

“Skill gaps are a defining factor for business competitiveness, and addressing them aggressively will be a key driver of economic prosperity during the next decade.”

“Money is not the only thing people value. We need to start counting all those other things, which are, in essence, our nonmonetary budget.”

Immediate and Future HR Challenges

Gaps in skills have become the norm, and trends suggest these gaps will widen. HR must grapple with this dynamic, unpredictable situation by forecasting demand and building “talent supply chains.” Half of HR respondents report that their chief financial concern is being able to attract quality people. Changes in how and where people work will require HR to adjust: Skilled workers, especially millennials, often choose nontraditional ways to engage with work, including remote, social and freelance gigs. Organizations that expect to attract and keep employees must offer purpose-driven work and inclusive, collaborative, intrinsically rewarding cultures. They must provide innovative training, personal development and career advancement. Employers who offer democratic cultures, meaningful assignments and flexible schedules will attract and retain scarce talent.

More than a quarter of HR professionals cite compensation as a chief concern. HR respondents’ most immediate human capital worry centers on employee engagement. Non-HR leaders report that retaining high performers is their leading immediate worry. Few organizations appear prepared for the coming wave of retirements. Many HR departments still suffer a lack of resources as a result of recession-era cutbacks. This concerns HR leaders more than any other operations-related challenge.

Human resource officers believe that creating a trusting, fair culture is their best recruitment tactic, with opportunities for training and promotion close behind. These experts believe such tactics will decline in importance, shifting to an increasing emphasis on work flexibility. They predict a continuing trend toward nontraditional work, away from full-time employment toward project, gig and freelance work. Still, 65% of respondents believe their organizations will continue to add full-time, traditional employees.

Addressing Employee Engagement

Engagement levels remain flat. Today’s rapid change and emphasis on doing more with less may contribute to the lack of progress. To address engagement deficits, firms should:

- Provide clear goals, objectives and priorities, and link them to employees’ work so they can see the impact of their contributions.
- Train managers to motivate their teams and solve workforce problems.
- Improve communication and transparency. Take a whole-workforce approach to engagement rather than focusing only on certain groups – like millennials, for example.
- Design jobs to eliminate busy work and relieve workers’ burdens.
- Plan work to reflect more realistically the way priorities change throughout the year.
- Empower HR and employees by providing the equipment they need, scheduling mandatory breaks and offering vacations to let employees recharge.
- Commit to employees over the long term.

HR reinvention and transformation is a priority. Few organizations attempt to measure HR’s contribution, hold it accountable, or use data to assess its involvement in strategy. HR leaders may report more urgency in addressing workforce challenges than do non-HR leaders, but both agree change must come, including the transformation of HR itself.

About the Author

The Society For Human Resource Management (SHRM) represents more than 280,000 members worldwide.